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CONSIDERATIONS RELATING TO A US AID PROGRAM
FOR FRANCE

PRELIMINARY VERSION
(Supplement)

OIR Report No. 4399S (PV)

July 18, 1947

DEPARTMENT OF STATE

Division of Research for Europe
OFFICE OF INTELLIGENCE RESEARCH

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CONFIDENTIALSTUDY OF EXTENSION OF US AID TO FRANCE: ANNEX

Summary: The attached table shows the estimates of the balance of payments for Metropolitan and Overseas France for the period 1946-50. The 1946 estimates represent actual results. Since the first half of 1947 is now past, and since much of the foreign trade for the second half is already programmed, the estimates for this year represent what will probably be achieved with the available financing. Thus, for 1946 and 1947 no additional funds are estimated to be needed.

The estimates for 1948 through 1950 represent French requirements as defined in the "Study of Extension of US Aid to France," Parts V-VII. They indicate that France will need additional funds equal to approximately \$1.55 billion, provided that it obtains new credits equal to \$700 million from the International Bank and Fund and that it gets control over and uses \$300 million of dollar assets held through Swiss banks. (The estimates for 1950 are not given in detail but only by major category.)

Import Requirements: In 1946 France imported \$2.2 billion of goods, of which approximately \$350 million was for capital equipment. In 1947 it is estimated that capital equipment imports will rise to \$450 million, still less than the Monnet Plan provides for, while other imports will rise by 15 percent over 1946 -- roughly the expected increase in the level of industrial production. Imports are thus estimated at \$2.5 billion, somewhat less than the French indicated would be desirable in the recent negotiations with the International Bank. They are, however, in line with achievements during the first half of 1947 and with the financial resources available to France this year.

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The estimated required rise in 1948 is based on high volume of grain imports, another 15 percent rise in imports of raw and semifinished materials in line with the anticipated increase in the level of economic activity, and \$500 million of capital equipment imports. This total of \$2.7 billion in 1948 is expected to fall in 1949 to \$2.6 billion, even though the level of economic activity will be higher in France then, and despite the desirability of maintaining capital equipment imports at roughly \$500 million to achieve the capital formation program. The reasons for this anticipated fall are: (1) with a moderately good harvest the need for emergency wheat imports will decline; (2) more of the imports can be in a raw rather than a finished state (e.g., France is currently importing refined petroleum products; with the planned expansion and modernization of its refinery capacity it will be able to import and process the cheaper crude oil); (3) with the recovery of countries with which France normally traded its terms of trade will improve -- in other words, it will be able to purchase goods more cheaply than will be possible in 1947 and 1948; and (4) trade within the franc area is expected to increase.

The "Study of Extension of US Aid to France," Part V, contains estimates of import requirements for wheat and coal. Total capital equipment import requirements are given in this annex. A study of the requirements of a few other important commodities is now being prepared in DRE.

Net Shipping Expenses: The anticipated fall of net expenditures of foreign exchange on ocean shipping from \$300 million in 1946 and 1947 to

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\$150 million in 1948 and \$80 million in 1949 is due to the planned expansion of the French merchant fleet, the availability of goods in areas closer to France, and an increase in the trade of the franc zone.

Exports: The estimated \$1.2 billion of exports in 1947 can probably be increased to \$1.4 billion in 1948 and \$1.65 billion in 1949 if world income increases and France achieves a substantial degree of internal financial stability. French estimates for 1948 and 1949 are higher -- \$1.6 billion and \$2.0 billion respectively. This is probably due to a failure to make sufficient allowance for the difficulty of exporting when the internal demand for goods is high and when the exchange rate is overvalued in term of foreign currencies.

The Deficit and its Financing: The net deficit on current account is expected to decrease steadily, slowly at first and rapidly after 1948. In 1946 it was \$2.2 billion; it is estimated at \$1.8 billion in 1947, \$1.65 billion in 1948, \$1.0 billion in 1949, and \$0.6 billion in 1950.

The existing credits and assets, used up largely in 1946, will be virtually exhausted by 1949, so that the uncovered deficit will be at a peak in 1948 and will remain relatively high until 1950.

Probable new credits from the International Bank and Fund and the probable new availability of dollars as a result of the current negotiations concerning French assets held by the Swiss banks may provide important sources of funds in 1948 and 1949 but not in 1950. Thus the probable uncovered deficit will rise in 1950. The probable uncovered deficit or the amount of additional funds needed by France, is estimated annually

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as follows:

1947	\$ 0	million
1948	600	million
1949	450	million
1950	500	million
Total	\$1,550	million

Comparison with "Study of Extension of US Aid to France:" The detailed estimates in the attached balance of payments differ to some extent from those presented in the "Study of Extension of US Aid to France," Part V. This is due to the availability of additional information and to a reappraisal of some of the factors in the changing economic situation. The estimate of total additional credits required after taking into account probable new credits is not, however, greatly changed. The main report estimated France's financial requirements at \$1.3 to \$1.6 billion; this annex estimates it to be roughly the same, about \$1.55 billion.

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Table A: Estimate of Balance of Payments of French Union, 1946-50
(in millions of dollars)

	1946	1947 ^a	1948 ^a	1949 ^a	1950 ^a
I. CURRENT ACCOUNT					
A. Payments	<u>3,096</u>	<u>3,280</u>	<u>3,250</u>	<u>3,000</u>	<u>2,850</u>
1. Imports, f.a.s.	2,225	2,505	2,700	2,600	
2. Net shipping expenses	300	300	150	80	
3. Non-commercial payments	570 ^b	475	400	320	
B. Receipts	<u>864</u>	<u>1,480</u>	<u>1,600</u>	<u>2,000</u>	<u>2,250</u>
1. Exports	550	1,200	1,400	1,650	
2. Tourist trade	20	40	100	300	
3. Non-commercial receipts	294	240	100	50	
C. Deficit on Current Account (gross capital import requirements)	<u>2,232</u>	<u>1,800</u>	<u>1,650</u>	<u>1,000</u>	<u>600</u>
II. CAPITAL ACCOUNT^c					
A. Receipts	<u>2,232</u>	<u>1,730</u>	<u>510</u>	<u>100</u>	<u>0</u>
1. Net liquidation of public and private holdings of gold, foreign exchange and foreign securities	1,030	785	300	100	
2. Two Export-Import Bank Credits	626	400	174	0	
3. Canadian credit	106	75	0	0	
4. Other governmental and private credits and receipts	470	170	35	0	
5. International Fund Advances	0	50	0	0	
6. International Bank Credit	0	250	0	0	
B. Uncovered deficit	<u>0</u>	<u>70</u>	<u>1,140</u>	<u>900</u>	<u>600</u>
C. Probable New Funds	<u>0</u>	<u>70</u>	<u>550</u>	<u>450</u>	<u>100</u>
1. International Bank and Fund	0	70	300	400	
2. Liquidation of dollar assets held through Swiss banks	0	0	250	50	
D. Probable Uncovered Deficit: Amount of Additional Funds Needed	<u>0</u>	<u>0</u>	<u>600</u>	<u>450</u>	<u>500</u>

a. Calculated in current prices.

b. The repayment of the UK credit accounts for \$200 million of this.

c. Payments to the International Monetary Fund and Bank are included for convenience in the current account item: non-commercial payments.

Note: This table represents some minor revision of the estimates presented in "Study of Extension of US Aid to France", July 1, 1947.

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CONSIDERATIONS RELATING TO A US AID PROGRAM
FOR FRANCE

PRELIMINARY VERSION
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Division of Research for Europe
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NOTE

The following sections have been prepared in accordance with a memorandum from Mrs. Willis, WE, to Mr. Gardiner, SWNCC, conveying the request of the European Sub-Committee of SWNCC for additional information.

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I. ECONOMIC EFFECTS OF THE PROPOSED
UNION WITH THE SAAR

In the past year the US has frequently indicated its agreement to the "economic and financial incorporation of the Saar in France." Mr. Brynes stated the US position publicly in Stuttgart on September 6, 1946 and in a private letter to M. Bidault on October 14, 1946. Secretary Marshall confirmed this position at the last Moscow Conference. The implementation of this policy is still to come and its economic effects depend in large part on the decisions which must be made concerning the treatment of Saar and Ruhr coal.

1. Coal. The single most important economic benefit that France expects to receive from the proposed economic incorporation of the Saar is increased coal imports, since the Saar is a large net exporter of coal. The net increase in coal imports which France may realize depends, however, as much upon the terms of the agreement it reaches with the US and UK Governments and with the European Coal Organization (ECO) as it does upon the amount of coal the Saar can export. If the ECO so desired it could probably offset all the coal exports of the Saar to France through a reduction in the exports of the Ruhr and US to France. Thus, as a lower limit it is possible that France would receive no increase in coal supply as a result of its incorporation of the Saar.

On the other hand, the proposal which the French have made in an aide-memoire of July 11, 1947 to the US Government would allow France

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gradually to change the allocation of Saar coal in its favor. The net effect of this might not be an absolute reduction in the amount of coal going to countries other than France, though it would necessarily reduce the amount of coal going to these countries below what they might otherwise receive. In brief, the French memorandum proposes that all increases in Saar coal production in the last quarter of 1947 accrue to France and that Saar coal be diverted to France from the ECO pool at an increasing rate. (The proposed total diversion amounts to 60,000 tons in October, 120,000 tons in November, and 180,000 tons in December.) Although nothing is stated as to France's intentions after the fourth quarter of 1947, it seems probable that by around the middle of 1948 France would expect to receive all Saar coal now being exported to countries other than France, which currently amounts to approximately 400,000 tons a month. If no reductions were made in the allocations of coal to France from other sources, France might thus obtain as much as 4 million tons additional in 1948.

It is extremely unlikely, however, that the net gain to France would be as much as this. Applying the ECO formula for coal allocation to France and the Saar as a unit would result in an increase in France's imports during the third quarter of 1947 of roughly 120,000 tons a month.¹

1. The formula is based, among other things, on the actual production and consumption requirements of the area.

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Increased Saar production might raise this to average 160,000 tons a month or 2 million tons annually in 1948. This figure seems to represent a more reasonable upper limit of the net coal gain France might make as a result of the incorporation of the Saar.

Actually, it is probable that the negotiations that will have to be carried on in the ECO will arrive at a figure somewhere between zero and this apparently upper limit. The exact figure will depend upon the ability of the French negotiators, the timing of their requests, the availabilities of coal from other sources, the provisions that may be made for the payment of this coal, and the attitudes of the other ECO countries.

It seems certain that France will save (or earn) dollars as a result of the Saar coal settlement. France would gain financially even if its proposed increased takings of Saar coal exports were completely offset by a reduction in exports from the ECO pool since it would not have to pay dollars for the coal from the Saar. This saving of dollars might amount to between \$10 and \$40 million in 1948, depending upon the amount of coal and on whether the value is computed at \$10 a ton (the current f.o.b. price for German coal), \$15 (the proposed price), or \$20 (the landed cost of US coal in France, which Saar exports might replace). This saving in dollars does not, of course, represent the increase in real goods which will be available in France, since the Saarlanders will presumably be paid for their exports.

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The dollars that France saves as a result of the Saar coal settlement will represent a foreign exchange burden on the bizonal area of Germany. Thus, if the US stands ready to finance the balance-of-payments deficit of Western Europe, this means that part of the funds must be made available to Europe through Germany rather than through France. Actually the bizonal authorities, by various decisions concerning trade with the French Zone (exclusive of the Saar), can probably reduce their financial "losses" or the financial gains which France might make as a result of the incorporation of the Saar.

2. Other Factors. Incorporation of the Saar will not mean that France will have a more ample supply of any commodity other than coal in the next few years. Since the Saar forms part of the French Zone of Occupation, France already controls the economy of that area except for the trade of any commodity subject to international allocation. Coal is the primary good falling in this category. It is a matter of relatively little moment to France whether the Saar is occupied or incorporated so far as the disposal of any other commodity not under international allocation is concerned. The amalgamation of the French Zone with the bizonal area would probably not affect this situation to any substantial degree.

It is possible that in the next few years France may export more to the Saar than it obtains as a result of the incorporation. At present the franc is probably over-valued in relation to the Saarmark. The

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imposition of the French currency in the Saar with French prices will probably turn the terms of trade against France in favor of the Saar. Thus, as a result of its incorporation, the inhabitants of the Saar will be able to import more real goods from France or they will build up equities for the acquisition of future goods and services from France. This may be of some importance to the Saarlanders, but the fact that the population of France is forty-five times that of the Saar reduces its effect on France.

If France feels that the Saar will remain incorporated indefinitely it may make use of the advantages of the Saar in the production of important commodities, notably steel, by increasing investment in the industries producing them. France will then be able to utilize its own resources and those of the Saar much more effectively, with resulting benefits to both areas and to Europe in general.

In the long run France will benefit by the incorporation of the Saar by adding to its economy a highly industrialized area with almost a million people whose prewar per capita income was approximately 20 percent greater than that of the French. The French people will benefit as a result of being part of an economy with a larger free trade area.

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II. ECONOMIC EFFECTS OF THE ITALIAN PEACE TREATY

The Italian Peace Treaty will not affect France's economic position. Few of the economic provisions allow France any important advantages. No reparations are to be paid. The compensation for damage to French property in Italy is to be made at two-thirds of its value and, more important, in local currency subject to all the exchange control regulations of Italy. The ceded territories have more strategic than economic value.

France may take ownership of all Italian assets in France, concerning whose total amount no information is available. It is unlikely, however, that France will take substantial advantage of this provision. The US has returned all Italian assets; Great Britain has also returned them all, with the proviso that settlement of British claims on Italians should be met out of these assets. The Italians and the French are now in process of negotiating on this provision in the treaty. Italy, of course, wants a generous settlement. Since France is very anxious to establish amicable relations with its Latin neighbor, it is likely that such a settlement will be reached.

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APPENDIX: ADDITIONS AND CORRECTIONS TO "STUDY OF EXTENSION
OF US AID TO FRANCE," JULY 1, 1947

Table 1B (Insert after p. 22)

Table 1B. FRENCH UTILIZATION OF NON-US CREDITS, 1945-46
(In millions of dollars)

	<u>1945</u>	<u>1946</u>	<u>Total</u>
UK	592	0 ^a	592
Canada	40	106	146
Sweden	23	18	41
Belgium ^b	35	0	35
Switzerland ^b	37	26	63
Argentina ^b	24	49	73
Other governmental credits ^b	0	30	30
Private investment and credits	0	100	100
Total	751	329	1,080

a. Repayments equal to \$192 million were made in 1946.

b. The "credits" extended are equal to the uncleared portion
of payments and clearings agreements made with France.

Correction:

Correct p. 23, line 15 to read: "totalling about \$2.4 billion,
of which more than one-half (\$1.36 billion)"

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At a meeting of the SWNCC European ad hoc sub-Committee the following changes were made in the "Study of Extension of U. S. Aid to France":

- ✓ p. 1, line 1 of the text, substitute the word "independent" for "democratic".
- ✓ p. 1, line 3 from the bottom of the page not a new paragraph.
- ✓ p. 3, line 10, insert the word "conditions" after the word "institutions".
- ✓ p. 3, lines 15 and 16, strike out the words "backlog of" and insert "accumulated and current".
- 7 ✓ p. 3, last line, insert the word "dollar" before "credits".
- ✓ p. 3, line 12, strike out the words "on the black market".
- ✓ p. 23, line 8, strike out one "etc".
- ✓ p. 36, 1st paragraph to read as follows: "In proportion as a United States aid program to France may prove effective and may dispose French opinion more favorably toward the United States the principles, motives and objectives of such a program will continue to be distorted and attacked by the extreme left."
- ✓ p. 36, line 12, strike out the word "terribly".
- ✓ p. 37, lines 8 and 9, strike out the words "by the Press office of the Embassy".
- ✓ p. 58, lines 1, 2 and 3, strike out the sentence: "Hence, in spite of the natural attraction of the great majority towards the United States, they fear that the U. S. will force them to choose sides in a potential world conflict."
- ? ✓ p. 58, line 7, change to read "is bewildered and resentful over France's inability".

Holders are requested to correct their copies accordingly.

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